

Message Text

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C O N F I D E N T I A L CARACAS 0180

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E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: PETROLEUM - EXXON CONTRACTS WITH PETROVEN

REF: (A) CARACAS 0093; (B) CARACAS 13133

1. BEGIN SUMMARY: ROBERT DOLPH CONFIRMED TO THE PETROLEUM ATTACHE ON JANUARY 7 THAT THE ANNOUNCEMENT BY EXXON IN NEW YORK OF THE SIGNING OF OFFTAKE AND TECHNICAL ASSISTANCE CONTRACTS WAS ACCURATE, AND PROVIDED DETAILS. EXXON WILL PURCHASE 800,000 B/D DURING THE FIRST QUARTER OF 1976, BUT HAS AGREED TO PURCHASE AN ANNUAL AVERAGE OF 965,000 B/D. THERE WAS NO PRICE REDUCTION BY THE GOV, BUT IN THE CASE OF CRUDE SHIPMENTS TO THE ARUBA, CURACAO AND TRINIDAD REFINERIES, THE GOV WILL BEAR A PORTION OF THE FREIGHT COSTS. THE TERMS OF THE TECHNICAL SERVICE CONTRACT ARE AS WE HAVE REPORTED. THE 15 CENT PER BARREL FEE WILL BE NET, WITH PETROVEN PAYING THE SALARIES AND EXPENSES OF THE 150 CREOLE TECHNICIANS BEING LOANED TO LAGOVEN. DOLPH EXPECTS THE EXXON WILL BE PERMITTED TO REPLACE ITS \$57 MILLION NOW IN THE GUARANTY FUND WITH COMPENSATION BONDS. HE EXPRESSED GENERAL SATISFACTION WITH ARRANGEMENTS EXXON HAS CONCLUDED. THE INFORMATION IN THIS CABLE WAS GIVEN TO THE EMBASSY AS PROPRIETARY AND NOT FOR DISSEMINATION TO THIRD PARTIES, END SUMMARY.

2. ON MONDAY EVENING, JANUARY 5, EXXON CORPORATION SIGNED WITH PETROVEN AN OFFTAKE AGREEMENT, WHICH ROBERT DOLPH OF CREOLE DESCRIBED AS PROBABLY THE LARGEST SINGLE OIL PURCHASE CONTRACT EVER CONCLUDED. IT WAS ANNOUNCED BY EXXON NEW YORK CONFIDENTIAL

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ON JANUARY 6, AND HEADLINED IN THE CARACAS PRESS ON JANUARY 7,

THAT THE COMPANY WILL BUY AN ANNUAL AVERAGE OF 965,000 B/D.

3. IN A MEETING WITH THE PETROLEUM ATTACHE JANUARY 7, DOLPH STRESSED THAT THE ABOVE FIGURE IS AN ANNUAL AVERAGE. PURCHASES OVER THE TWO-YEAR LIFE OF THE CONTRACT TOTAL APPROXIMATELY 615,000 B/D OF CRUDE AND 350,000 B/D OF PRODUCTS. THE CONTRACT PROVIDES FOR TOLERANCES OF 10 PERCENT FOR CRUDE AND 15 PERCENT FOR PRODUCT ON EITHER SIDE OF THE AGREED AVERAGE DURING ANY GIVEN PERIOD WITHIN THE CONTRACT AS LONG AS THE FINAL AVERAGE IS OBTAINED. THIS WOULD PERMIT A VARIATION OF APPROXIMATELY 60,000 B/D FOR CRUDE AND 50,000 B/D FOR PRODUCT ON EITHER SIDE OF THE AVERAGE AT ANY GIVEN TIME.

4. DOLPH SAID EXXON WILL BEGIN BY TAKING ONLY 800,000 B/D FOR THE FIRST QUARTER. (THIS APPEARS TO FALL BELOW THE TOLERANCES ESTABLISHED IN THE CONTRACT.) DOLPH NOTED THAT SINCE THE TOLERANCES WORK BOTH WAYS, EXXON WILL BE ABLE TO CALL ON ADDITIONAL QUANTITIES OF OIL FROM PETROVEN IF MARKETING CONDITIONS WARRANT LATER IN THE YEAR. HE AFFIRMED THAT OIL PRICES WILL BE SET QUARTERLY (AS DESCRIBED IN THE SAMPLE CONTRACT SUBMITTED UNDER CARACAS A-224), WITH A SIX MONTHS PHASEOUT PROVISO IF NO PRICE AGREEMENT CAN BE REACHED. DURING THIS SIX MONTH PERIOD, WHILE PRICE NEGOTIATIONS ARE UNDERWAY, THE CONTRACT WILL NOT BE CONSIDERED BREACHED IF OFFTAKE DOES NOT REMAIN WITHIN THE TOLERANCE RANGE OF THE ANNUAL AVERAGE.

5. DOLPH MADE IT CLEAR THAT THERE WAS NO PRICE DISCOUNT INVOLVED WHICH MIGHT HAVE MOTIVATED EXXON TO AGREE TO LIFT A HIGHER FIGURE THAN HAD BEEN INTENDED. ASKED IF THE PIW STORY THAT EXXON WOULD BUY OIL FOR THE ARUBA REFINERY AT REALIZATION PRICES WAS ACCURATE, DOLPH SAID NO. THE ONLY SPECIAL FEATURE OF THE ARUBA ARRANGEMENT WAS THAT THE GOV AGREED TO PICK UP A PORTION OF THE FREIGHT COSTS. DOLPH ALSO UNDERSTOOD THAT A SIMILAR ARRANGEMENT WAS UNDER NEGOTIATION WITH SHELL FOR CRUDE SHIPMENTS TO CURACAO, AND WITH TEXACO FOR SHIPMENTS TO TRINIDAD. THE ONLY DEAL FOR SELLING OIL AT REALIZED PRICES THAT DOLPH WAS AWARE OF WAS TO ASIATIC PETROLEUM IN NEW YORK. HOWEVER, HE UNDERSTOOD THAT IT WAS A MEANINGLESS ARRANGEMENT, SINCE PETROVEN HAD SET A FLOOR PRICE EQUIVALENT TO THE PRICE OFFERED TO EVERYBODY ELSE.

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6. THERE IS VERY LITTLE NEW TO ADD ON WHAT WE KNOW AND HAVE REPORTED ABOUT THE TECHNICAL SERVICE CONTRACT. EXXON WAS THE FIRST TO SIGN. THE 15 CENT PER BARREL FEE FOR EACH BARREL PROCESSED AND EACH BARREL REFINED WILL BE A NET FEE. THE TECHNICAL SERVICE CONTRACT WAS SIGNED WITH AN AFFILIATE CALLED EXXON SERVICES VENEZUELA. FOR LEGAL AND TAX PURPOSES, CREOLE PETROLEUM COMPANY CEASED TO HAVE A PRESENCE IN VENEZUELA ON DECEMBER 31, 1975. DOLPH AND FOUR OR FIVE OTHER FORMER CREOLE OFFICIALS HAVE BEEN TRANS-

FERRED TO A COMPANY KNOWN AS CPC SERVICES AND THEY WILL REMAIN IN VENEZUELA FOR SEVERAL MONTHS TO CLOSE THE 1975 BOOKS, FILE TAX RETURNS, ETC. THE 150 CREOLE EXPATRIATE EMPLOYEES WHO ARE BEING LOANED TO LAGOEN UNDER THE TECHNICAL SERVICE CONTRACT HAVE ALL BEEN TRANSFERRED TO EXXON SERVICES VENEZUELA. THEIR SALARIES AND EXPENSES, AS WELL AS THE EXPENSES OF EXXON SERVICES, WILL BE PAID BY PETROVEN VER AND ABOVE THE FEE.

7. ON THE MATTER OF RECOVERING CASH NOW ON DEPOSIT IN THE GUARANTY FUND AND REPLACING IT WITH COMPENSATION BONDS, DOLPH CONTINUES TO BELIEVE THE GOV WILL HONOR THIS ARRANGEMENT. CREOLE HAS \$57 MILLION ON DEPOSIT WHICH IS COVERED BY A SIDE LETTER TO THE COMPENSATION AGREEMENT, INITIALED BY DOLPH AND MINES MINISTER VALENTIN HERNANDEZ. DOLPH ALSO REPORTED THAT CREOLE RECEIVED A CERTIFICATE RATHER THAN ACTUAL COMPENSATION BONDS ON JANUARY 1 BECAUSE THE COMPANY HAD PREVIOUSLY "SOLD" THE BONDS TO ANOTHER AFFILIATE AND THE FINANCE MINISTRY DID NOT HAVE TIME TO REPRINT THE BONDS IN THE NAMES OF NEW OWNERS.

8. DOLPH EXPRESSED HIS BASIC SATISFACTION WITH THE END RESULT OF NATIONALIZATION AND THE CONTRACTS WHICH EXXON SIGNED WITH PETROVEN. HE SAID THAT NET BOOK VALUE COMPENSATION DID NOT PLEASE EVERYONE, BUT THE COMPANY CAME OUT A LOT BETTER THAN MIGHT HAVE BEEN THE CASE ELSEWHERE, OR THAN IN CERTAIN SPECIFIC NATIONALIZATION EXAMPLES PREVIOUSLY APPLIED BY OTHER COUNTRIES. WHILE THE BARGAINING WAS HARD, IT WAS NOT IN HIS VIEW CONDUCTED UNDER DURESS. THE GOV REALIZED FROM THE BEGINNING THAT IT NEEDED THE COMPANIES AFTER NATIONALIZATION, AND WENT AHEAD WITH NEGOTIATIONS FOR THEIR PARTICIPATION IN SPITE OF STRONG POLITICAL SNIPIING BY THE OPPOSITION.

9. COMMENT: AS OF THE MOMENT, NO OTHER AGREEMENTS HAVE BEEN SIGNED, ALTHOUGH SHELL IS APPARENTLY ON THE VERGE. THE GOV HAS ALWAYS BELIEVED THAT THE OTHER COMPANIES WOULD FOLLOW
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ALONG ONCE THE DEAL WAS STRUCK WITH EXXON. DOLPH EVADED THE PETROLEUM ATTACHE'S EFFORTS TO ELICIT AN EXPLANATION AS TO WHY EXXON HAD DECIDED TO MEET THE GOV MORE THAN HALF WAY ON OFFTAKE VOLUMES (REF B). PERHAPS THE GOV'S ARGUMENT THAT THE COMPANY SHOULD THINK IN TERMS OF THE LONG PULL AND CONTINUING RELATIONSHIP WAS PERSUASIVE. SUGGESTIONS FROM THE GOV THE PETROVEN MIGHT BE MORE FLEXIBLE THAN THE MINISTRY OF MINES ON PRICE NEGOTIATIONS MAY HAVE ALSO HAVE GIVEN EXXON CAUSE FOR OPTIMISM WITH RESPECT TO THE SECOND QUARTER AND BEYOND.
END COMMENT.
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